Decision Making

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Meaning

- Every action of a manager is generally an outcome of a decision.
- Peter Drucker has rightly said, “what ever a manger does, he does through making decisions.”
- The job of management involves innumerable decisions. That’s why many authors think that management is decision making.
- Decision is a choice where by a person comes to a conclusion about a given situation.
- Decision making is therefore a selection of a choice.
- It is a process of selection of alternative courses of action to fulfill the objectives of the decision problem.
- It is a course of action which is consciously chosen for achieving a desired result.

Features

- Goal oriented
- Selection process
- Continuous process
- Responsibility of managers at all levels
- Psychological process/ mental process
- May be or positive or negative
- It involves future courses of action but is based on the past experiences and present conditions.
- Problem solving
- Universal process (Pervasive)
- Situational in nature
- Intellectual process

Decision-making & Planning

- Decision making is a must for all management functions.
- It is not only impotent in planning but it is equally impotent is other function of management as, organizing commanding, co ordination, staffing and controlling etc.
- Deciding is a form of planning.
- Deciding and planning have related meaning.
- Planning is the result of Deciding.
- Planning comes automatically when we take decisions.
- Planning with its elements like, plans policies, objectives etc are the outcome of decision making.
- Decision making is a part of planning process.

Pervasiveness of Decision Making

- Decision making is the corner stone of entire managing ambit.
- **Planning:**
- What one the organizations long-tern objectives.
- What strategies will best these objectives.
- **Organizing:**
- How many people are required to do a particular job.
- How should jobs be designed.
- **Leading :**
- How do I handle employees who appear to be low in motions.
- How will a specific change affect worker productivity.
- **Controlling:**
- What activities in an organization need to be controlled.
- How these activities be controlled.

Problem

- A problem is a discrepancy between an existing and a desired state of affairs.

Types of Problem

- **Well - structured**
- Straight forward problems, easy to define and to make decisions.
- **Ill -structured**
- New or unusual problems, information incomplete or ambiguous, not easy to define and make decisions.
- **Crisis**
- A crisis problem is a serious difficulty requiring immediate action.
- **Non-crisis**
- It is a problem that requires resolution but does not have the importance and urgency of a crisis.
- **Opportunity**
- An opportunity is a situation that offers strong potential for significant organizational gain if appropriate actions are taken in time.

Steps in Decision making

- Identify the problem Area.
- Gather relevant information.
- Identify alternatives.
- Weigh evidences/ evaluate alternatives.
- Choose/ select among alternatives.
- Implement alternatives.
- Monitoring the implementation.

Role/ importance of Decision making in management.

- Management is essentially a decision making process and managers at all levels are concerned with decision making.
- Decision making is the work a manager performs to arrive at conclusion/ judgment.
- It is an important aspect of planning and also of all other management functions.
- It helps is problem solving.
- It helps is achieving organizational objectives.

Types of Decision makers

- **Problem Avoider**
- **Ignores information that points to a problem. Inactive Does not want to confront problem**
- **Problem Solver**
- **Tries to solve the problems when they come up. Reactive to problems after they occur. Firefighters.**
- **Problem Seekers**
- **Actively seek out problems to solve. Pursue new opportunities, pro-active. Anticipate problems before they occur.**

3 Approaches managers can use to make decisions

1. RATIONAL

- We assume that the manager's decision making will be rational…
- It means that manager will make logical and consistent choices to maximize value. After all managers have all sorts of tools and techniques to help them be rational decision makers.
- The rational assumptions are as follows :
- A rational decision maker would be fully objective and logical.
- Problem faced would be clear, unambiguous (clear)
- Decision maker would have a clear and specific goal to be achieved
- Know all possible alternatives and consequences
- Final choice are made in the best interests of the organization.

2. BOUNDED RATIONALITY

- Managers make rational decisions but are bounded (imitated) by their ability to process information.
- Managers satisfied in which decision makers accept solutions that are good enough.

3. INTUITIVE DECISION MAKING

- Making decisions based on experience, feelings and accumulated judgment
- Experienced based decisions – managers make decisions based on their experience
- Affect initiated decisions – managers make decisions based on feelings or emotions
- Cognitive based decisions – managers make decisions based on skills, knowledge
- Subconscious mental processing- use data from subconscious mind
- Values or Ethics based decision – make decisions based on ethical values or cultures.

Decision making style

- **Directive style**
  - **Low tolerance for ambiguity and a rational way of thinking. Efficient logical. Making fast decisions.**
- **Analytic style**
  - **High tolerance for ambiguity and a rational way of thinking, careful in decision making, slow, able to adapt or cope changing situations.**
- **Conceptual**
  - **Very broad out look, develop many alternatives, focus on long run, good at finding creative solutions.**
- **Behavioral style**
  - **Work well with others, receptive to suggestions from subordinates, hold meetings, take decision on consensus.**

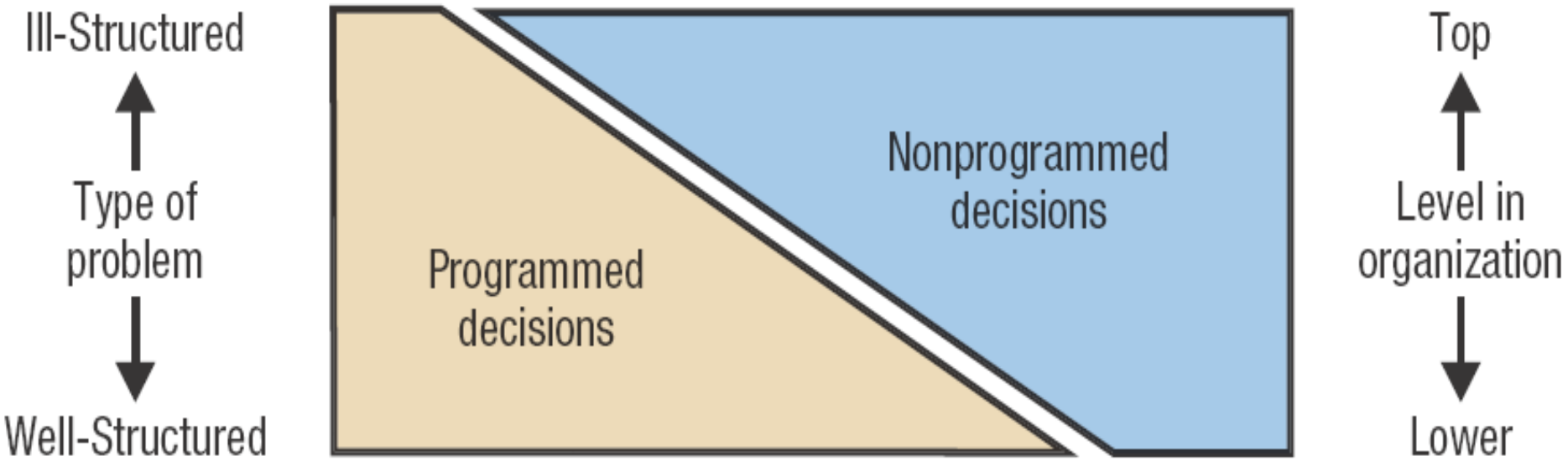
Nature of Decision

- **1. Safe : Minimizing possible loss**
- **2. Satisfying : Good enough**
- **3. Dented : Temporary. Maybe revised**
- **4. Conditional : Subject to more inputs**
- **5. Paragon : Ideal**

Types/ Classification of Decisions

- Programmed & Non programmed Decisions
- Routine & Strategic decisions
- Policy & Operative Decisions
- Organizational & Personal Decisions
- Major and Miner decisions
- Individual & Group Decisions

Programmed & Non programmed Decisions



Programmed & Non programmed Decisions

A. Programmed Decisions

- Concerned with the problems of repetitive nature or routine type matters.
- A standard procedure is followed for tacking such problems.
- Mainly these type of decisions are taken by first line managers.
- Examples: Decisions related to the problems of: purchase of raw materials, granting leave to the employees, supply of goods etc.

B. Non-programmed Decisions

- Non programmed decisions are taken mainly by higher level managers.
- **These are typically one-shot decisions that are usually less structured.**
- **These required Judgment, Intuition, Creativity.**
- Decisions relating to difficult situations.
- Examples: Opening of a new branch of the organization. Introducing a new product in the marketing.

Routine & Strategic decisions

A. Routine decisions

- These are related with day to day functioning of the organization.
- Don’t require much evaluation & analysis.
- Lower level managers normally take these decisions.

B. Strategic decisions

- Decisions regarding organizational goals/ objectives or other important policy matters.
- Involve large funds.
- Non repetitive & long term impact.
- Taken after careful analysis & evaluation of many alternatives.
- Top level authorities mainly take these decisions.

Policy & Operative Decisions

A. Policy Decisions

- Related to the policy matters of the organization.
- Taken by Top management.
- Long term impact.
- Examples : Location of the plant, volume of production. Distribution policies.

B. Operative Decision

- Related to day to day operation.
- Middle & lower level managers are involved.

Organizational & Personal Decisions

A. Organizational Decision

- If a decision is taken by a person (s) as an executive or in the official capacity for the organization then it is organizational decision.

B. Personal Decision

- If a person/ executive takes a decision in his personal capacity, these by affecting his personal life, then this type of decision is known as personal decision.
- Sometimes, this type of decisions may affect functioning of the organization also.
- Example : If an executive resigns/ leaves the organization.

Major and Minor decisions

A. Major Decisions

- Decisions related to major issues like opening of a new business purchase or a new factory are major decisions.
- Top management involves in this.

B. Minor Decisions

- Decisions related to miner issues like purchase of office stationeries is know as minor decisions.
- First line managers involve in this.

Individual & Group Decisions _

A. Individual Decisions

- Taken by a single individual.
- Routine type of decisions.

B. Group Decisions

- Taken by a group/ committee.
- Maximum no. of employees are involved. _

Decision making Environment

- **Certainty:** All the information the decision maker needs is fully available.
- **Risk:** A decision has clear out objectives, and good information is available, but future outcomes associated with each alternative are subject to chance
- **Uncertainty:** Managers know what objective they wish to achieve, but information about alternatives and future events is incomplete.
- **Ambiguity:** The objective to be achieved or the problem to be solved are unclear, alternatives are difficult to define, and information about outcomes is unavailable.

Models of Decision Making

- **Classical Model:** This model is made on the assumption that managers should make logical decisions that will be in organization`s best economic interests.
- **Normative Model:** This model defines how a decision –maker should make decisions and provides guidelines for reaching an ideal outcome for the organization.

Decision Making Process

- **Step 1. Identifying a Problem**
- **Step 2. Identifying decision criteria**
- **Step 3. Developing alternatives**
- **Step 4. Analyzing alternatives**
- **Step 5. Selecting an alternative**
- **Step 6. Evaluating decision effectiveness**

SWOT ANALYSIS

- **Strengths (strategic)**
  - Internal resources such as capital, skills of workers, or patents that are available or things that an organization does well.
- **Weaknesses**
  - Resources that an organization lacks or activities that it does not do well.
  - Or resources that are lacking in the organization.
- **Opportunities (strategic)**
  - Positive external environmental factors.
- **Threats**
  - Negative external environmental factors